

**CITY OF CHULA VISTA  
MINUTES**

**HOUSING ADVISORY COMMISSION MEETING**

**WEDNESDAY, JANUARY 28, 2009  
3:30 P.M.**

**CITY HALL BY CLERK'S OFFICE  
CONFERENCE ROOM #C101**

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**CALL TO ORDER/ROLL CALL – 3:33 p.m.**

**PRESENT:** Gregory Alabado, Dina Chavez, Earl Jentz, Margie Reese, Armida Martin Del Campo, Mauricio Torre

**ABSENT:** Aurora Cudal (unexcused)  
Mark Minas (excused)

**STAFF:** Amanda Mills, Redevelopment & Housing Manager  
Stacey Kurz, Senior Project Coordinator

**1. APPROVAL OF MINUTES**

November 13, 2008

*Member Martin Del Campo made a motion to approve the minutes. Member Chavez seconds the motion. All members agreed unanimously to approve the motion.*

**2. HOME INVESTMENT PARTNERSHIP FUNDS LETTER OF PRE-COMMITMENT**

Staff Mills provided a brief summary of the staff report regarding the financing requirements for Phase II of "The Landings" to be converted to 147 low-income rental units, reference attached. Staff Mills further explained the difficulty in financing moderate income projects in today's economy.

Chair Reese asked for an explanation of the HOME funds. Staff Mills explained that the City receives approximately \$800,000 in HOME Investment Partnership funds from the U.S. Department of Housing & Urban Development per year. There are various commitment and expenditure requirements on the grant monies.

Chair Reese questioned the cost of land at \$5,000. Staff Mills explained that Brookfield/Shea was donating the land and the cost was for transactional fees. Staff Mills further explained that Eastlake was essentially buying credits to cover the difference between the 115 unit obligation and the 147 units that would be built.

Member Jentz asked if this was a competitive process for Chelsea. Staff Mills explained that we have a rolling application for HOME funds and staff has to evaluate each application individually. Larger agencies can issue an RFP, however due to timeframes to spend money and our smaller allotment we cannot issue a one time RFP.

Member Jentz further indicated that the individual unit cost of \$300,000 seemed expensive considering the cost to acquire properties in this economy. Staff Mills indicated that new construction tends to be more expensive; however reminded members that \$300,000 per unit was not the City's subsidy and when looking at acquisition projects you have to factor in other considerations, such as: rehabilitation costs, lifespan, and number of units. It is rare to find a property where you can acquire a large number of units, typically 40 plus are required to find financing.

Chair Reese asked if there are regulations that prohibit purchasing single units as oppose to apartment complexes. Staff Mills responded that there are no such prohibited uses of funds, however it is difficult to

manage scattered sites and for leveraging other funds you need larger projects, economies of scale. Staff Mills added that typical subsidy levels in San Diego range from \$60,000 - \$140,000 per unit.

*Member Martin Del Campo made a motion to recommend that Council approve the pre-commitment of \$2.4 M in HOME funds for Phase II of "The Landings". Member Chavez seconds the motion. All members agreed unanimously to approve the motion.*

### **3. STAFF REPORTS**

Staff Kurz provided an update on the following projects/programs:

- ❖ HCD Annual Financial Report – postponed until joint meeting with the Mobilehome Rent review Commission.
- ❖ Los Vecinos – pictures of the construction progress were forwarded to Commissioner's email accounts. The project is expected to be complete in April and Commissioners will be notified of the grand opening.
- ❖ Neighborhood Stabilization Funds – HUD notified the City that the NSP Plan was approved on January 13<sup>th</sup>. Staff is moving forward to develop the guidelines for the downpayment program and scheduling a series of educational classes. The NOFA is also being developed for the \$1M in funds to create permanent rental housing for very low-income residents. The Commission will likely see more in the future on the NOFA project.
- ❖ Balanced Communities Working Group – The stakeholders group met for a 3<sup>rd</sup> meeting in December and reviewed potential incentives to build affordable housing above required inclusionary units. Staff is now working internally with other departments to begin crafting language of an ordinance update, but does not expect to meet again with stakeholders until this spring.
- ❖ The Landings – pictures of the Grand Opening event were forwarded to Commissioner's email accounts. The project is fully leased up this month.

### **4. MEMBER'S COMMENTS**

Chair Reese requested that the attorney's office come to speak about conflict of interest issues.

### **5. ORAL COMMUNICATIONS**

No oral communications.

### **6. ADJOURNMENT** – Meeting was adjourned at 4:30 p.m.

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Recorder, Stacey Kurz

Attachments:

1. Staff Report for #2

## **A REPORT TO THE HOUSING ADVISORY COMMISSION**

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Item No. \_\_

Staff: Amanda Mills  
Housing Manager

**DATE:** January 26, 2009

**SUBJECT:** **THE LANDINGS RENTAL HOUSING PROJECT-** RECOMMENDATION OF APPROVAL TO THE CITY COUNCIL TO CONDITIONALLY APPROVE FINANCIAL ASSISTANCE FROM THE HOME INVESTMENT PARTNERSHIP (HOME) PROGRAM IN AN AMOUNT NOT-TO-EXCEED \$2,400,000 TO CHELSEA INVESTMENT CORPORATION FOR THE DEVELOPMENT OF A 147 UNIT PROJECT FOR LOW INCOME HOUSEHOLDS, THE LANDINGS AT WINDING WALK-PHASE II, IN OTAY RANCH VILLAGE ELEVEN

### **RECOMMENDATION**

That the Housing Advisory Commission recommend **APPROVAL** to the City Council to provide up to a maximum of \$2,400,000 in financial assistance from the City's HOME Investment Partnership Funds to Chelsea Investment Corporation for the financing of a proposed 147 unit affordable housing project located on the corner of Discovery Falls Road and Crossroads Street in Otay Ranch Village 11 in Chula Vista.

### **BACKGROUND**

Under the Balanced Communities Policy of the City's General Plan Housing Element, Brookfield Shea Otay, LLC (master developer) has an affordable housing obligation to provide 207 total affordable units (92 low income and 115 moderate income) within the Winding Walk community. The 92 unit low income housing obligation has been satisfied with the completion of The Landings affordable apartments by Chelsea Investment Corporation (CIC).

With the current economic climate and difficulty in obtaining financing, the master developer is proposing satisfaction of its moderate income obligation through the development of a second phase of low income housing, The Landings Phase II. Staff recommends providing a pre-commitment of \$2,400,000 from its federal HOME Investment Partnership Program (HOME) funds to assist CIC in obtaining affordable housing financing.

### **PROJECT DESCRIPTION**

Under the City's Balanced Communities Affordable Housing Program, the master developer of Otay Ranch Village 11 (aka Winding Walk) has an obligation to provide a total of 207 affordable units: 92 low income and 115 moderate income. The master developer identified Neighborhood R-19 to be developed with a total of 239 units to satisfy both the low and moderate income housing obligations. CIC was selected by the master developer to satisfy its obligation of 92 low income units. CIC has completed construction of a 92 unit affordable rental community, known as The Landings. It opened in November 2008.

Pursuant to the existing Affordable Housing Agreement, the master developer was to satisfy the moderate income housing obligation through the development of a first time homebuyer project, with 115 as moderate income units and 32 as market rate/unrestricted units. The Agreement provides flexible language to allow lease/purchase of the units should there be difficulty in selling the units.

Under the current economic climate, financing is limited and difficult to obtain for both construction of developments and individuals purchasing homes. With financing so difficult, a for-sale project is infeasible for moderate income households. Financing remains available for development of rental housing opportunities for lower income households.

The master developer is now proposing rental housing to satisfy the balance of their affordable housing obligation based upon the increasing difficulty in developing and implementing successful homeownership opportunities for moderate income households in Chula Vista and throughout the region. Given the success of The Landings, the master developer has selected CIC to pursue a second phase of The Landings which will provide additional rental housing for low income households on the remaining affordable site.

### **FINANCIAL ASSISTANCE**

Financing continues to be available for rental housing for lower-income households through the Low Income Housing Tax Credit Program and Tax Exempt Multi-Family Revenue Bonds. CIC is in the process of securing such financing for the project and is requesting consideration of financial assistance from the City. CIC has proposed Tax Exempt Multi-Family Revenue Bonds, Low Income Housing Tax Credit financing, and a permanent loan to support the majority of the estimated \$46.7 million (\$318,164 per unit) cost of constructing the project (see table below).

With rents restricted at very low and low income levels, the net operating income is insufficient to support a loan large enough to cover all the project costs. There remains a financing gap of approximately \$14 million.

It is proposed that the remaining financing gap will be met by a combination of deferred master developer land/contractor fees, deferred developer fee and City assistance. To close the financing gap, CIC has requested direct financial assistance of \$4.4 million.

During such a difficult time to secure financing, staff is supportive of providing CIC's The Landings II with a pre-commitment of HOME funds. Due to time restrictions on HOME funds, the City is only able to identify \$2.4 million available for this project. The leveraging of local dollars is necessary to obtain the critical bond/tax credit financing for the project. As proposed, the project would be able to leverage \$18 in private investment for each \$1 of our local resources. However, there remains a \$2 million gap even with the City's participation.

With an obligation to provide only 115 moderate income units, The Landings II will provide a surplus of 32 units. These surplus units could be used as a potential source of additional funding by making these surplus units available as "affordable housing credits". Other developers could provide financial assistance in exchange for the use of such credits to satisfy their respective affordable housing obligations.

The Eastlake Company (Eastlake) recently entered into an agreement with the City to provide 25 additional low income affordable units as a result of a 494 residential unit increase from the 2006 SPA plan amendment. Since Eastlake no longer owns residential land to provide these affordable units, the agreement offers alternative options to provide off-site affordable units in eastern Chula Vista. Eastlake has expressed their willingness to provide the remaining \$2 million financing gap for The Landings II in exchange for receiving the affordable housing credits towards their own obligation. The use of the credits would complete the financing necessary for The Landings II and provide Eastlake with a flexible option for meeting their obligations.

**PROFORMA SUBSIDY ANALYSIS**

	<b>Cost</b>	<b>Funds</b>	<b>Financing Gap</b>
<b>Project Cost</b>			
Land Purchase	\$5,001		
Construction	\$31,190,470		
Contingency	\$500,000		
Permits & Fees	\$7,208,033		
Interest/Fees, Financing Costs	\$2,810,408		
Design/Engineering	\$1,300,000		
Developer Fees	\$2,500,000		
Reserves, Legal, Other	\$1,256,158		
<b>Sources of Funds</b>			
Tax Credit Equity		\$16,332,000	
Tax Exempt Bonds-Permanent Loan		\$15,677,000	
Subordinate Bond		\$1,000,000	
<b>Subtotal</b>	<b>\$ 46,770,070</b>	<b>\$ 33,009,000</b>	<b>\$ 13,761,070</b>
<b>Subsidies</b>			
City Loan		\$2,400,000	
Eastlake Co - Aff Hsg Credits		\$2,000,000	
Deferred Contractor Fee		\$7,300,000	
Deferred Developer Fee		\$2,061,070	
<b>TOTAL</b>	<b>\$ 46,770,070</b>	<b>\$ 46,770,070</b>	<b>\$ -</b>
Cost per Unit @ 147 Units)			\$ 318,164

**Income and Rent Restrictions**

Per the Affordable Housing Agreement for the inclusionary obligation, 115 units must be affordable for moderate income households. Because of the financing Chelsea is pursuing, the entire project will provide rents even lower. The number of units actually restricted by the Affordable Housing Agreement will be 147 low income. Income and rent restrictions for The Landings will be maintained for 55 years.

<b>Unit Description</b>	<b>No. of Units</b>	<b>Target Income Group % of AMI</b>	<b>Annual Income (4 Persons)</b>	<b>Inclusionary Housing Monthly Rents (Moderate)</b>	<b>Proposed Monthly Rents (Lower)</b>
3 Bd/2 Ba	29	50%	\$ 39,500	\$ 2,052	\$ 966
3 Bd/2 Ba	117	60%	\$ 47,400	\$ 2,052	\$ 1,172
MGR	1	N/A	N/A	N/A	N/A
<b>Total Restricted</b>	<b>147</b>				

The income and rent restrictions outlined above are to be incorporated into the various deed restrictions for The Landings. Compliance with these restrictions will be subject annually to regulatory audit and annual tax credit certification. The developer has successfully managed low income housing units for 20 years. Compliance with strict property management policies and procedures will ensure that income and rent restrictions will be maintained for the full 55-year compliance period, and will bind all subsequent owners of The Landings, so that the commitment remains in force regardless of ownership.

**Form of Assistance**

Assistance will be in the form of a loan from the City's HOME funds and secured by a note and deed of trust recorded against the property. The principal and interest on the loan will be amortized over fifty-five years and repaid from cash surplus in annual installments. Terms of the loan will be further negotiated and all related loan documents will be presented to the City for approval at a later date.